

DEPARTMENT OF DEVELOPMENTAL SERVICES'

AUDIT OF

CREEL INDUSTRIES, INC.

Programs and Services:

Adult Development Center – HQ0943

Independent Living Program – HQ0532

Audit Period: July 1, 2015, through June 30, 2016

Audit Section

Auditors: Michael Masui, Chief of Vendor Audit Unit
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CREEL INDUSTRIES, INC.

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EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) has audited Creel Industries, Inc. (CRI). The audit was performed upon the Adult Development Center (ADC) and Independent Living Service (ILS) programs for the period of July 1, 2015, through June 30, 2016.

The audit disclosed the following issues of non-compliance:

Finding 1: Adult Development Center – Tailored Day Service Option (TDSO) Unsupported Billings

The review of CRI's ADC-TDSO program, Vendor Number HQ0943, revealed that CRI had a total of \$4,831 of unsupported billings to San Diego Regional Center (SDRC).

Finding 2: Independent Living Program – Unsupported Billings

The review of CRI's ILS program, Vendor Number HQ0532, revealed that CRI had a total of \$2,909 of unsupported billings to SDRC.

Finding 3: Non-Compliance with Audit Requirement for Financial Statements

CRI failed to comply with Welfare and Institutions (W&I) Code, Section 4652.5, which required CRI to obtain an independent audit of its financial statement for FY 2015-16. The amount of funds CRI received from SDRC during FY 2015-16 was more than \$2,000,000.

The total of the findings identified in this audit amounts to \$7,740 and is due back to DDS. A detailed discussion of these findings is contained in the Findings and Recommendations section of this report.

BACKGROUND

DDS is responsible, under the Lanterman Developmental Disabilities Services Act, for ensuring that persons with developmental disabilities receive the services and supports they need to lead more independent, productive, and normal lives. DDS contracts with 21 private, nonprofit regional centers that provide fixed points of contact in the community for serving eligible individuals with developmental disabilities and their families in California. In order for regional centers to fulfill their objectives, they secure services and supports from qualified service providers and/or contractors. Pursuant to the Welfare and Institutions (W&I) Code, Section 4648.1, DDS has the authority to audit those service providers and/or contractors that provide services and supports to persons with developmental disabilities.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The audit was conducted to determine whether CRI's financial accountability requirement and its Adult Development Center and Independent Living Service programs were compliant with the W&I Code, California Code of Regulations (CCR), Title 17, and the regional centers' contracts with CRI for the period of July 1, 2015, through June 30, 2016.

Scope

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. The auditors did not review the financial statements of CRI, nor was this audit intended to express an opinion on the financial statements. The auditors limited the review of CRI's internal controls to gain an understanding of the transaction flow and invoice preparation process, as necessary, to develop appropriate auditing procedures. The audit scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that CRI complied with W&I Code and CCR, Title 17. Also, any complaints that DDS' Audit Section was aware of regarding non-compliance with laws and regulations were reviewed and addressed during the course of the audit.

The audit scope was determined by reviewing the programs and services provided to San Diego Regional Center (SDRC) that utilized CRI's services during the audit period. CRI provided two different types of services, of which, DDS audited both. The two services chosen by DDS were based on the amount of purchase of services (POS) expenditures invoiced by CRI. By analyzing the information received during the pre-audit meeting with the vendor, an internal control questionnaire and a risk analysis, it was determined that a two-month sample period would be sufficient to fulfill the audit objectives.

Adult Development Center – Tailored Day Service Option

During the audit period, CRI operated one TDSO program. The audit included the review of CRI's ADC-TDSO program, Vendor Number HQ0943, Service Code 510 and testing was done for the sampled months of August and September 2015.

Adult Development Center – Day Program

During the audit period, CRI operated one Adult Day program. The audit included the review of CRI's Adult Day program, Vendor Number HQ0675, Service Code 510 and testing was done for the sampled months of August and September 2015.

Independent Living Program

During the audit period, CRI operated one ILS program. The audit included the review of CRI's ILS program, Vendor Number HQ0532, Service Code 520 and testing was done for the sampled months of August and September 2015.

Methodology

The following methodology was used by DDS to ensure the audit objectives were met. The methodology was designed to obtain a reasonable assurance that the evidence provided was sufficient and appropriate to support the findings and conclusions in relation to the audit objectives. The procedures performed included, but were not limited to, the following:

- Reviewed vendor files for contracts, rate letters, program designs, POS authorizations and correspondence pertinent to the review.
- Interviewed regional center staff for vendor background information and to obtain insight into the vendor's operations.
- Interviewed vendor staff and management to gain an understanding of its accounting procedures and processes for regional center billing.
- Obtained and reviewed the vendor's internal control questionnaire.
- Obtained and reviewed the vendor's internal control questionnaire.
- Reviewed vendor service/attendance records to determine if the vendor had sufficient and appropriate evidence to support the direct care services billed to the regional center(s).
- Analyzed the vendor's payroll and attendance/service records to determine if the appropriate level of staffing was provided.

- Reviewed the vendor's General Ledger, Payroll Records, and Trial Balance to determine the vendor's costs.
- Interviewed the vendor's Executive Director, Administrator, and Program Coordinators, for vendor background information and to gain understanding of accounting procedures and financial reporting process.

CONCLUSION

Based upon items identified in the Findings and Recommendations section, CRI had findings of non-compliance with the requirements of CCR, Title 17.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued a draft audit report on February 5, 2020. The areas of review and conclusion of the audit were discussed in an exit conference with [REDACTED], President of CRI, and [REDACTED], Controller of CRI, on February 13, 2020. [REDACTED] responded via email on March 6, 2020, that CRI agreed with the conclusions of the audit report.

RESTRICTED USE

This report is solely for the information and use of DDS, Department of Health Care Services, SDRC and CRI. This restriction is not intended to limit distribution of this report, which is a matter of public record.

FINDINGS AND RECOMMENDATIONS

Finding 1: Adult Development Center – Tailored Day Service Option (TDSO) – Unsupported Billings

The review of CRI's ADC-TDSO program, Vendor Number HQ0943, for the sampled months of August and September 2015 revealed that CRI had unsupported billings for services billed to SDRC. The unsupported billings occurred due to a lack of appropriate documentation to support the units of service billed to SDRC.

CRI was not able to provide appropriate supporting documentation for 169 hours of services billed. The lack of documentation resulted in unsupported billings to SDRC in the amount of \$4,831, which is due back to DDS. (See Attachment A)

W&I Code, Section 4648.1(e)(1) states:

“(e) A regional center or the department may recover from the provider funds paid for services when the department or the regional center determines that either of the following has occurred:

(1) The services were not provided in accordance with the regional center's contract or authorization with the provider, or with applicable state laws or regulations.”

CCR, Title 17, Section 54326(a)(3) and (10) states:

“(a) All vendors shall:

(3) Maintain records of services provided to consumers in sufficient detail to verify delivery of the units of service billed...

(10) Bill only for services which are actually provided to consumers and which have been authorized by the referring regional center.”

CCR, Title 17, Section 50604(d) and (e) states:

“(d) All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program...

(e) All service providers' records shall be supported by source documentation.”

Recommendation:

CRI must reimburse \$4,831 to DDS for the unsupported billings. In addition, CRI should develop and implement policies and procedures to ensure that proper documentation is maintained to support the amounts billed to SDRC.

CRI's Response:

██████████, Controller of CRI, submitted a response on March 6, 2020, stating that CRI acknowledges the findings and does not dispute them.

See Attachment B for the full text of CRI's response to the draft audit report and Attachment C for DDS' evaluation of CRI's response.

Finding 2: Independent Living Program – Unsupported Billings

The review of CRI's ILS program, Vendor Number HQ0532, for the sampled months of August and September 2015 revealed that CRI had unsupported billings for services billed to SDRC. The unsupported billings occurred due to a lack of appropriate documentation to support the units of service billed to SDRC.

CRI was not able to provide appropriate supporting documentation for 92 hours of services billed. The lack of documentation resulted in unsupported billings to SDRC in the amount of \$2,909, which is due back to DDS. (See Attachment A)

W&I Code, Section 4648.1(e)(1) states:

“(e) A regional center or the department may recover from the provider funds paid for services when the department or the regional center determines that either of the following has occurred:

- (1) The services were not provided in accordance with the regional center's contract or authorization with the provider, or with applicable state laws or regulations.”

CCR, Title 17, Section 54326(a)(3) and (10) states in part:

“(a) All vendors shall:

- (3) Maintain records of services provided to consumers in sufficient detail to verify delivery of the units of service billed...
- (10) Bill only for services which are actually provided to consumers and which have been authorized by the referring regional

center.”

CCR, Title 17, Section 50604(d) and (e) states:

- “(d) All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program...
- (e) All service providers’ records shall be supported by source documentation.”

Recommendation:

CRI must reimburse \$2,909 to DDS for the unsupported billings. In addition, CRI should develop and implement policies and procedures to ensure that proper documentation is maintained to support the amounts billed to SDRC.

CRI’s Response:

██████████, Controller of CRI, submitted a response on March 6, 2020, stating that CRI acknowledges the findings and does not dispute them.

See Attachment B for the full text of CRI’s response to the draft audit report and Attachment C for DDS’ evaluation of CRI’s response.

Finding 3: Non-Compliance with Audit Requirement for Financial Statements

CRI failed to comply with the requirement in W&I Code, Section 4652.5 to obtain an independent audit of its financial statement for the audit period. The amount of funds CRI received from SDRC during the FY 2015-16 was more than \$2,000,000.

W&I Code, Section 4652.5(a) states in part:

- “(1) An entity that receives payments from one or more regional centers shall contract with an independent accounting firm to obtain an independent audit or independent review report of its financial statements relating to payments made by regional centers, subject to both of the following:...
- (B) If the amount received from the regional center or regional centers during the entity’s fiscal year is equal to or more than two million dollars (\$2,000,000), the entity shall obtain an independent audit of its financial statements for the period.”

Recommendation:

CRI must obtain an independent audit of its financial statements and provide copies of the independent audit report to SDRC and DDS.

CRI's Response:

██████████ Controller of CRI, submitted a response on March 6, 2020, stating that CRI acknowledges the findings and does not dispute them.

See Attachment B for the full text of CRI's response to the draft audit report and Attachment C for DDS' evaluation of CRI's response.

ATTACHMENT A

CREEL INDUSTRIES, INC.

To request a copy of the attachment for this audit report, please contact the DDS Audit Section at (916) 654-3695.

ATTACHMENT B – VENDOR’S RESPONSE

CREEL INDUSTRIES, INC.

To request a copy of the vendor’s response to the audit findings, please contact the DDS Audit Section at (916) 654-3695.

ATTACHMENT C – DDS' EVALUATION OF CRI's RESPONSE

CRI's response, dated March 6, 2020, acknowledged and accepted DDS' conclusions in the audit report.